

REGIONAL REAL ESTATE

OFFICE MARKET

Introduction

The following section provides market real estate report data for the Sacramento Metro area (here defined as Sacramento, Yolo, El Dorado, and Placer counties). Submarket data is also provided for the Roseville/Rocklin market. Roseville and Rocklin data are shown as one integrated submarket. (Note: Rocklin is not broken out separately as a stand alone market area.)

Information on the Sacramento office, retail, and industrial real estate markets are on the following pages. Facility costs are a key site location factor for businesses and industry. This information is used by developers, businesses, and related companies in evaluating alternative geographic areas.

Market Overview

Sacramento is ranked nationally as the 29th largest office market, the 28th largest retail market, and the 29th largest industrial market respectively. For the Roseville/Rocklin submarket, the market outlook for all three major property types: office, retail, and industrial is strong. This submarket leads the region in new construction and absorption.

Sacramento—Office
Market Overview

Sacramento's total population is 2.08 million. The average per capita personal income is estimated at \$35,001, about 13.5 percent below the national average. The cost of doing business is 30 percent above the national average.

Office Market Forecast

The short-term forecast calls for overall positive growth in office workers through year-end 2007. Total net absorption is forecasted to be a positive 2M square feet, outpacing supply during the same period. By year-end 2007, the vacancy rate is expected to be 13.1 percent while rents are forecasted to grow – reaching \$22.67 compared to the current market rent of \$21.99.

Figure 40—Sacramento Office Forecast Summary

	Demand				Supply		Performance		
	New Jobs		Net Absorp (sf x 1000)	Absorp Rate (%)	Deliveries (sf x 1000)	Compl Rate (%)	Vac Rate (%)	TW Rent (\$/sf)	Rent Infl (%)
	Ofc Financial	Ofc Services							
2005	2,200	2,900	2,007	6.2	1,250	3.2	14.3	21.77	5.8
2006F	800	3,000	726	2.1	1,035	2.6	14.7	22.19	1.9
Q1	800	-700	-115	-0.3	291	0.7	15.2	21.99	1.0
Q2F	200	1,100	319	0.9	386	1.0	15.2	22.17	0.8
Q3F	0	1,200	252	0.7	200	0.5	15.0	22.20	0.1
Q4F	0	1,400	270	0.8	158	0.4	14.7	22.19	0.0
2007F	1,000	4,800	1,174	3.3	615	1.5	13.1	22.67	2.2
Historical Performance (1980 - Present)									
Min	-2,900	-2,600	-587	-1.9	69	0.2	7.1	9.92	-7.6
Max	5,600	9,700	2,730	20.2	2,973	21.1	26.8	21.99	18.7
Mean	1,320	2,480	1,004	6.2	1,015	7.1	14.8	16.22	2.9

Source: CBRE, TWR

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Figure 41—Employment Levels and Growth Rates: Sacramento vs. U.S.

NAICS Category	Level (x 1000)	Location Quotient	Avg Annual Growth Rates (%)					
			Last 5 Years		Last 12 Mos.		Next 5 Years	
			Metro	U.S.	Metro	U.S.	Metro	U.S.
Agriculture & Mining	1	0.16	-5.7	1.3	-10.5	6.2	1.5	0.3
Construction	75	1.51	5.4	1.8	3.2	4.7	0.8	0.1
Manufacturing	50	0.53	-0.4	-3.6	3.8	-0.5	1.4	0.0
Wholesale Trade	27	0.71	1.5	-0.1	3.0	1.9	3.6	1.4
Retail Trade	101	0.99	1.9	0.0	2.7	1.1	1.0	0.6
Transportation & Warehousing	22	0.75	-0.3	-0.3	0.5	1.4	3.6	1.1
Information	19	0.92	-2.0	-3.7	-7.5	0.6	2.5	1.4
Financial Activities	65	1.18	4.3	1.2	3.4	2.1	1.8	0.7
Prof. & Business Svcs.	105	0.92	0.6	0.5	4.1	2.9	4.7	2.5
Education & Health	89	0.76	3.7	2.7	2.2	2.5	2.9	2.6
Hospitality & Leisure	85	0.98	3.1	1.6	5.0	2.5	4.0	2.7
Other Services	29	0.81	1.2	0.8	0.5	0.2	1.9	1.9
Government	226	1.56	1.2	1.0	1.6	1.0	1.1	0.7
Total	892	na	1.9	0.4	2.5	1.7	2.2	1.4

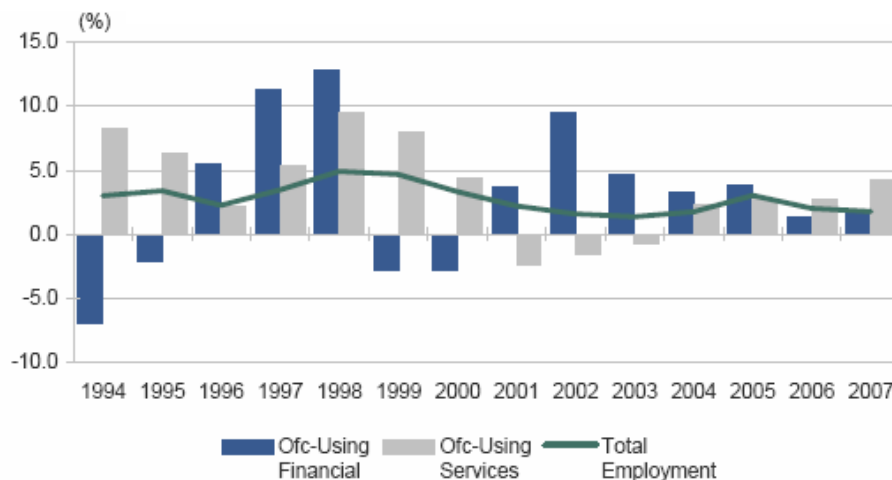
Source: CBRE, TWR

Sacramento Economy

Over the last five years, total employment in the Sacramento area has grown at an average annual rate of 1.9 percent, while the U.S. employment has grown at an average annual rate of 0.4 percent. Total employment in the Sacramento area is projected to grow 2.2 percent in the next five years. Relative to the U.S., the Transportation and Warehousing employment sector will post the best job performance over the five-year period.

The table (Figure 41) presents current employment levels for major industry groups, as well as historical growth rates over the last five years, the last 12 months, and the next five years.

Figure 42—Office Employment Growth vs. Total Employment Growth



Source: CBRE, TWR

Office Employment

Office employment, the primary determinant of demand, is defined as certain categories within the Financial and Service employment sectors in which workers occupy office space. Over the last five years, office employment has grown 1.7 percent and in the past year, 2 percent.

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OFFICE MARKET

Sacramento Office Annual History and Forecast

Presented (Figure 44) is a short-term forecast for the Sacramento market. Historical figures are presented going back to 1999. Forecasted figures for new supply are based on projects known to be under construction.

Figure 43—Ten Largest Office Employment Sectors

% Growth - Last 12 Mos.			
Location Quotient			
Level (x 1000)			
Office-Using Financial Activities			
Banking	20	1.02	7.8
Insurance	23	1.55	1.0
Real Estate	12	1.24	6.0
Office-Using Services			
Architecture and Engineering	10	1.07	8.7
Computer Systems	7	0.87	5.7
Consulting	9	1.50	9.3
Corporate Headquarters	9	0.79	-2.7
Employment Services	21	0.87	5.8
Legal Services	8	0.98	-2.4
Telecom Resellers	7	7.70	-9.5
Totals			
Ofc-Financial Total	60	1.19	3.5
Ofc Services Total	109	0.93	1.2

Source: CBRE, TWR

Figure 44—Sacramento Office Annual History and Forecast

Year	Ofc-Using Financial (x 1000)	Ofc-Using Services (x 1000)	Total Inventory (sf x 1000)	Completions (sf x 1000)	Vacancy Rate (%)	Net Absorption (sf x 1000)	TW Rent Index (\$/sf)	Rent Inflation (%)
HISTORY								
1999	48.1	104.8	32,572	2,305	9.0	2,038	19.37	5.6
2000	46.7	109.4	33,833	1,261	7.3	1,723	19.11	-1.3
2001	48.5	106.8	35,051	1,218	9.6	324	19.88	4.0
2002	53.1	105.2	36,357	1,306	13.4	-202	19.63	-1.3
2003	55.6	104.4	37,956	1,599	16.0	397	20.58	4.8
2004	57.4	106.9	38,966	1,010	16.7	575	20.57	0.0
2005	59.6	109.8	40,216	1,250	14.3	2,007	21.77	5.8
FORECAST								
2006	60.4	112.8	41,251	1,035	14.7	726	22.19	1.9
2007	61.4	117.6	41,866	615	13.1	1,174	22.67	2.2

Source: CBRE, TWR

REGIONAL REAL ESTATE

OFFICE MARKET

Figure 45—Office Market Two-year Forecast—Submarket Region

Submarket	Inventory		Completions		Net Absorption		Vacancy Rate		Rent Growth (%) Performance Relative to Metro
	NRA (sf x 1000)	Share (%)	Avg Ann (sf x 1000)	Share (%)	Avg Ann (sf x 1000)	Share (%)	End Rate (%)	Ann Chg (BPS)	
Downtown	8,322	20.5	61	7.8	210	18.3	11.2	-185	Outperform
Subtotal: Downtown	8,322	20.5	61	7.8	210	18.3	11.2	-185	Outperform
Carmichael / Fair Oaks	586	1.4	0	0.0	0	0.0	10.9	0	Outperform
Citrus Heights / Orangevale	553	1.4	25	3.2	16	1.4	12.4	105	Outperform
Roseville / Rocklin	4,797	11.8	451	58.0	455	39.7	10.1	-100	Outperform
Subtotal: Roseville	5,936	14.7	476	61.2	471	41.1	10.4	-70	Outperform
Campus Commons	1,108	2.7	16	2.1	13	1.1	9.9	10	Outperform
Folsom / El Dorado County	2,120	5.2	87	11.2	92	8.0	12.8	-80	Under Perform
Highway 50 Corridor	9,604	23.7	28	3.6	244	21.3	11.4	-225	Under Perform
Howe Ave / Fulton Ave	1,672	4.1	0	0.0	0	0.0	14.5	0	Average
Midtown / East Sacramento	2,083	5.1	0	0.0	0	0.0	17.5	0	Under Perform
Natomas / Northgate	1,624	4.0	5	0.6	11	1.0	18.4	-40	Under Perform
Point West	2,192	5.4	1	0.1	3	0.3	18.5	-10	Under Perform
South Natomas	2,629	6.5	15	1.9	28	2.4	14.1	-55	Under Perform
South Sacramento	1,497	3.7	85	10.9	72	6.3	14.7	5	Under Perform
Watt Ave	1,162	2.9	1	0.1	1	0.1	10.1	0	Outperform
West Sacramento	558	1.4	3	0.4	2	0.2	40.3	-10	Under Perform
Subtotal: Suburban	26,249	64.8	241	30.9	466	40.7	14.2	-95	Under Perform
Total: Sacramento	40,507	100.0	776	100.0	1,144	100.0	12.9	-115	1.8

Source: CBRE, TWR



This new Class A office space totaling 288,000' by Opus West will be located along the State Highway 65 corridor.

REGIONAL REAL ESTATE

RETAIL MARKET

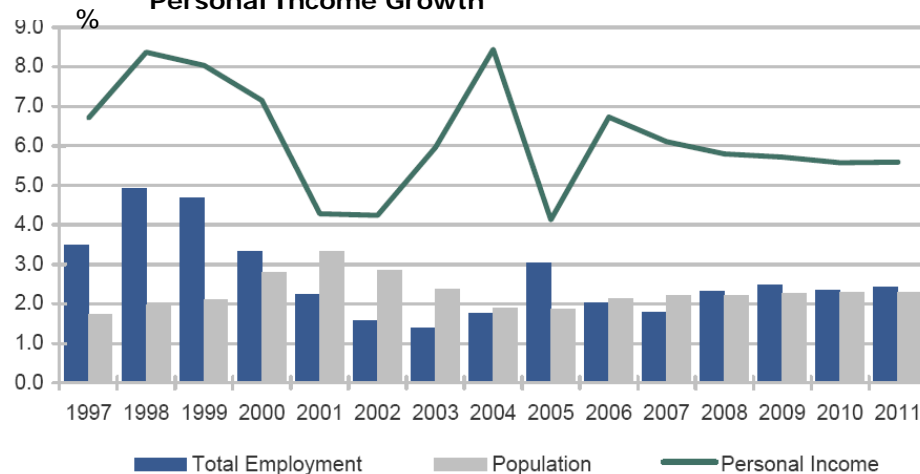
Introduction

Population, personal income and most importantly, total employment are the primary economic drivers of retail demand.

Economic Drivers of Demand

The graph (Figure 46) shows the annual growth rates of these variables from 1997-2011.

Figure 46—Total Employment, Population, and Personal Income Growth



Source: CBRE, TWR

Sacramento Retail Annual History and Forecast

Presented is a six-year forecast for the Sacramento retail market with historical data dating to 1997. Currently, overall demand for workers is at a high point. Total employment is expected to grow 2.2 percent per year over the next six years – though this growth will be lower than the long-term average of 2.5 percent per year. Net absorption is expected to average 482,000 square feet per year while supply is expected to average 511,000 square feet per year. Availability rates are forecasted to improve, dropping to 4.1 percent while rents are forecasted to rise to \$31.06.

Figure 47—Sacramento Annual History and Forecast

Year	Total Employment (x 1000)	Personal Income (\$ billions)	Total Inventory (sf x 1000)	Completions (sf x 1000)	Est. Avail. Rate (%)	Est. Net Absorption (sf x 1000)	Rent Index (\$/sf)	Rent Inflation (%)
HISTORY								
1997	710	44.0	16,576	476	8.5	387	15.49	1.6
1998	745	47.6	16,778	201	7.1	420	16.16	4.3
1999	780	51.5	17,014	236	7.0	237	17.02	5.3
2000	806	55.1	18,015	1,002	7.3	876	18.76	10.2
2001	824	57.5	18,782	766	7.4	692	19.67	4.9
2002	837	59.9	19,404	622	7.9	480	21.35	8.5
2003	848	63.5	19,652	248	6.8	438	23.04	7.9
2004	863	68.9	20,839	1,187	4.6	1,573	25.03	8.6
2005	889	71.7	21,222	383	3.9	514	27.22	8.7
FORECAST								
2006	907	76.5	21,695	455	4.4	323	26.97	-0.9
2007	924	81.2	22,166	471	4.3	481	28.19	4.5
2008	945	85.9	22,687	521	4.2	514	28.97	2.8
2009	968	90.8	23,225	538	4.2	523	29.67	2.4
2010	991	95.9	23,765	540	4.2	524	30.36	2.3
2011	1,015	101.3	24,305	540	4.1	524	31.06	2.3

Source: CBRE, TWR

REGIONAL REAL ESTATE

RETAIL MARKET

Figure 48—Sacramento Retail Sales History and Forecast

Year	Retail Sales (Millions of \$)			Sales per Square Foot (\$/SF)	Sales per Capita (\$)
	Shopping Goods & Restaurants	Grocery Stores	Total		
HISTORY					
1997	8,709.8	2,712.8	11,422.6	689	6,660
1998	9,368.4	2,912.4	12,280.8	732	7,022
1999	10,048.8	3,119.1	13,167.9	774	7,373
2000	10,701.1	3,325.7	14,026.8	779	7,640
2001	11,120.1	3,465.7	14,585.8	777	7,689
2002	11,551.1	3,610.9	15,162.0	781	7,771
2003	12,178.9	3,818.9	15,997.8	814	8,011
2004	13,113.5	4,122.3	17,235.8	827	8,470
2005	13,604.4	4,274.3	17,878.7	843	8,625
FORECAST					
2006	14,436.7	4,544.7	18,981.4	875	8,966
2007	15,239.8	4,808.8	20,048.6	905	9,265
2008	16,042.9	5,069.7	21,112.6	931	9,545
2009	16,876.1	5,340.0	22,216.1	957	9,821
2010	17,732.0	5,619.0	23,351.0	983	10,091
2011	18,633.5	5,912.5	24,546.0	1,010	10,370

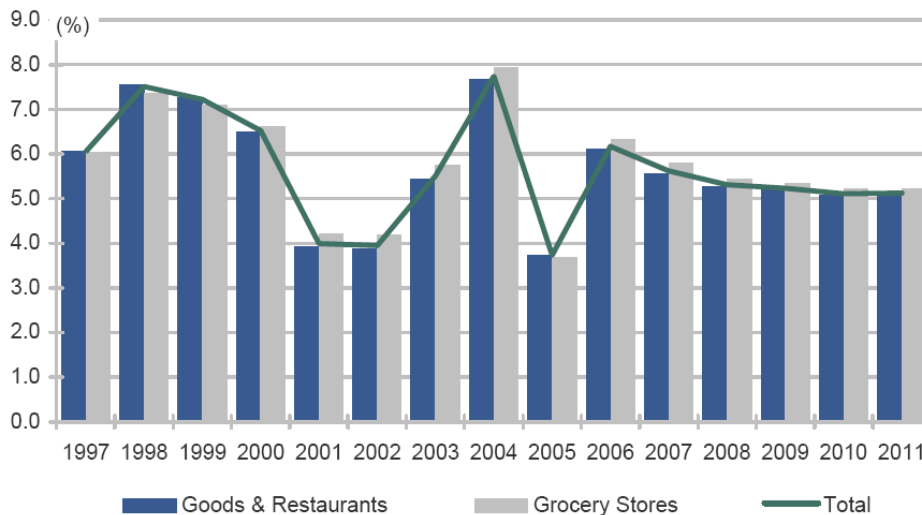
Source: CBRE, TWR

Sacramento Retail Sales

Total retail sales for Sacramento is estimated at \$18.14 billion—accounting for 1.4 percent of the nation's total retail sales. Over the last five years, retail sales in Sacramento has grown at an average annual rate of 5 percent. Forecasts show retail sales for Sacramento will continue to grow at an annual rate of 5.3 percent over the next five years.

Presented (Figure 48) is a six-year forecast for the Sacramento retail market with historical data to 1997.

Figure 49—Sacramento Retail Sales Growth



Source: CBRE, TWR

REGIONAL REAL ESTATE

INDUSTRIAL MARKET

Industrial Market
Forecast Overview

The short-term forecast calls for overall positive growth in manufacturing and distribution workers. Total net absorption is forecasted to be a positive 2.5 million square feet, lagging supply during the same period. By year-end 2007, the availability rate is expected to be 14.1 percent while rents are forecasted to decline—reaching \$5.51 compared to current market rents of \$5.83.

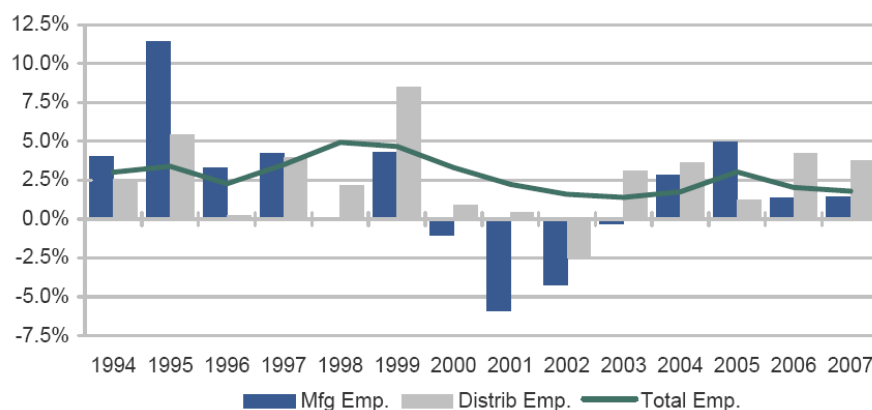
Figure 50—Sacramento Industrial Forecast Summary

	Demand				Supply		Performance		
	New Jobs		Net Absorp (SF x 1000)	Absorp Rate (%)	Deliveries (SF x 1000)	Compl Rate (%)	Avail Rate (%)	TW Rent (\$/SF)	Rent Infl (%)
	Manufacturing	Distribution							
2005	2,300	600	5,014	3.3	2,031	1.1	13.8	5.56	0.9
2006F	700	1,600	3,151	2.0	2,796	1.5	13.4	5.56	0.0
Q1	200	300	1,742	1.1	528	0.3	13.1	5.62	1.1
Q2F	100	400	564	0.4	631	0.3	13.1	5.60	-0.4
Q3F	200	400	452	0.3	839	0.5	13.2	5.58	-0.4
Q4F	200	500	393	0.2	798	0.4	13.4	5.56	-0.4
2007F	700	1,600	1,134	0.7	2,914	1.6	14.1	5.51	-0.9
Historical Performance (1980 - Present)									
Min	-3,700	-1,100	-2,778	-2.0	275	0.3	7.4	2.16	-9.6
Max	5,700	2,900	7,446	5.4	14,014	16.2	15.6	5.83	17.1
Mean	830	790	2,241	1.6	3,756	3.8	12.1	3.69	3.9

Source: CBRE, TWR

Industrial
Market Forecast

Manufacturing and distribution employment are the primary determinants of demand. Distribution employment includes all of the Wholesale Trade sector plus transportation (trucking and warehouse). The latest estimates of distribution and manufacturing employment for Sacramento are 39,700 workers and 50,200 workers respectively. Over the last five years, distribution employment in Sacramento has grown by 1.1 percent while manufacturing employment has declined by 0.4 percent. Over the last year, distribution employment has grown by 2.1 percent and manufacturing employment has grown by 3.7 percent.

Figure 51—Manufacturing and Distribution
Employment Growth vs. Total Employment Growth

Source: CBRE, TWR

REGIONAL REAL ESTATE

INDUSTRIAL MARKET

Figure 52—Sacramento Industrial Market History and Forecast

Year	Mfg Emp (x 1000)	Distrib Emp (x 1000)	Total Inventory (SF x 1000)	Completions (SF x 1000)	Availability Rate (%)	Net Absorption (SF x 1000)	TW Rent Index (\$/SF)	Rent Inflation (%)
HISTORY								
1994	41.6	30.2	147,770	1,909	11.6	1,979	3.48	3.3
1995	46.4	31.9	149,875	2,105	13.7	-1,286	3.52	1.1
1996	47.9	32.0	153,967	4,092	12.3	5,688	3.71	5.4
1997	50.0	33.3	157,235	3,268	11.2	4,595	3.90	5.1
1998	49.9	33.9	161,418	4,183	10.5	4,844	4.02	3.1
1999	52.1	36.8	166,649	5,231	11.0	3,848	4.02	0.0
2000	51.6	37.2	169,301	2,652	9.9	4,223	4.25	5.7
2001	48.5	37.4	173,536	4,235	13.7	-2,778	4.77	12.2
2002	46.5	36.4	177,232	3,696	15.0	885	5.09	6.7
2003	46.4	37.5	178,745	1,513	15.1	1,107	5.20	2.2
2004	47.7	38.8	181,240	2,495	15.6	1,213	5.51	6.0
2005	50.0	39.4	183,271	2,031	13.8	5,014	5.56	0.9
FORECAST								
2006	50.7	41.0	186,067	2,796	13.4	3,151	5.56	0.0
2007	51.4	42.6	188,980	2,914	14.1	1,134	5.51	-0.9
2008	52.1	43.9	191,681	2,701	14.1	2,357	5.62	2.0
2009	52.9	45.4	194,427	2,746	13.8	3,030	5.75	2.3
2010	53.6	46.7	197,261	2,833	13.5	2,974	5.81	1.0
2011	54.3	47.9	200,085	2,824	13.4	2,703	5.88	1.2

Source: CBRE, TWR

Industrial
Market Forecast

Presented (Figure 52) is a six-year forecast for the Sacramento industrial market with historical data back to 1994. Forecasted figures for new supply are based on projects known to be under construction. Industrial employment is projected to grow 2.3 percent over the next six years. Net absorption is expected to average 2.6 msf per year while supply is expected to average 2.8 msf per year. Availability rates are forecasted to rise to 13.4 percent, while rents are forecasted to rise to \$5.88

Figure 53—Industrial Market Two-year Forecast—Submarket Region

Submarket	Inventory		Completions		Net Absorption		Availability Rate		Rent Growth (%) Performance Relative to Metro
	NRA (SF x 1000)	Share (%)	Avg Ann (SF x 1000)	Share (%)	Avg Ann (SF x 1000)	Share (%)	End Rate (%)	Ann Chg (BPS)	
Placer County	19,595	10.7	555	18.9	218	14.4	15.6	130	Under Perform
Sacramento County	97,942	53.3	1,856	63.2	825	54.6	12.7	80	Outperform
Solano County	31,561	17.2	524	17.9	467	30.9	22.3	-20	Under Perform
Yolo County	34,701	18.9	0	0.0	0	0.0	10.3	0	na
Total: Sacramento	183,799	100.0	2,933	100.0	1,509	100.0	14.2	55	-0.9

Source: CBRE, TWR